

DIRECT TESTIMONY OF
AARON K. RABON, CPA
ON BEHALF OF
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF
DOCKET NO. 2021-324-WS

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.**

2 A. My name is Aaron K. Rabon. My business address is 1401 Main Street, Suite 900,
3 Columbia, South Carolina, 29201. I am employed by the South Carolina Office of
4 Regulatory Staff (“ORS”) as a Senior Auditor.

5 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

6 A. I received a Bachelor of Science Degree in Business Administration with a major
7 in Finance from the University of South Carolina in May 2016. I received a Master of
8 Accounting Degree from Virginia Polytechnic Institute and State University in December
9 2018. I received my Certified Public Accountant (CPA) License in 2021 and my license is
10 currently active in the State of South Carolina. Prior to my employment with ORS, I
11 performed audits and tax preparation/analysis for a local public accounting firm. I began
12 my employment with ORS in August 2021.

13 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE**
14 **COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?**

15 A. No, I have not previously testified before the Commission.

16 **Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?**

A. ORS represents the public interest as defined by the South Carolina General Assembly in S. C. Code Ann. § 58-4-10 as:

[T]he concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING, AND HOW DOES YOUR DIRECT TESTIMONY REPRESENT THE PUBLIC INTEREST?

A. The purpose of my testimony is to set forth ORS's findings and recommendations for certain adjustments resulting from ORS's examination of the application of Kiawah Island Utility, Inc. ("KIU" or "Company"), in Docket No. 2021-324-WS. Specifically, I address ORS's findings and recommendations for the following adjustments:

- Adjustment #2b – Purchased Water Costs
- Adjustment #2c – Purchased Power for Santee Cooper
- Adjustment #2d – Removal of Tap-in Expenses
- Adjustment #2e – Adjust Accounting Costs for Known Audit Costs
- Adjustment #2f – Removal of Nonrecurring Legal Fees
- Adjustment #2g – Adjust SWWC Corporate Overhead Allocation
- Adjustment #2h – Amortization of Rate Case Expenses
- Adjustment #2i – Removal of Nonallowable Expenses
- Adjustment #5 – Other Amortization Expense

Q. WAS THE REVIEW PERFORMED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes. The review to which I testify was performed by me or under my supervision.

Q. PLEASE EXPLAIN ORS'S RECOMMENDED ADJUSTMENTS.

A. Adjustment 2B – Increase Purchased Water Costs Going Forward

The Company proposes an adjustment of \$238,229 to purchased water costs to reflect the 2021 rates charged by St. John's Water Company. ORS verified the support documentation provided by the Company and accepts the adjustment of \$238,229.

Adjustment 2C – Increase Purchased Power for Santee Cooper

The Company proposes an adjustment of \$27,682 to increase purchased power for a non-recurring credit received from the Santee Cooper V.C. Summer abandonment settlement during the Test Year. ORS verified the amount of the credit received by the Company and accepts the adjustment of \$27,682.

Adjustment 2D – Removal of Tap-in Expenses

The Company proposes an adjustment of (\$119,500) to remove tap-in expenses from operating expenses. An identical amount of tap-in revenue was removed from utility operating revenues in ORS adjustment 1B. ORS accepts the Company's adjustment of (\$119,500).

Adjustment 2E – Adjustment of Accounting Costs for Known Audit Costs

The Company proposes an adjustment of \$339 to increase accounting expenses to the amount of known audit costs. PricewaterhouseCoopers, LLP ("PwC"), is the Company's auditor, and audit fees are \$24,500 per the PwC engagement letter. The amount recorded during the Test Year was \$24,161. ORS accepts the Company's adjustment of \$339.

Adjustment 2F – Removal of Nonrecurring Legal Fees

1 The Company proposes an adjustment of (\$313,423) to remove one-time legal
2 expenses related to litigation associated with an unsuccessful underground drill for the KIU
3 secondary pipeline from St John's to Kiawah Island. ORS verified the amount of legal fees
4 associated with the litigation and accepts the Company's adjustment of (\$313,423).

5 **Adjustment 2G – Adjustment of SWWC Corporate Overhead Allocation**

6 The Company proposes an adjustment of (\$436,606) to reflect KIU's appropriate
7 share of management fees and overhead costs according to SouthWest Water Company's
8 ("SWWC") Three-Factor Methodology. For the SWWC allocation, the Company provided
9 the SWWC Cost Allocation Manual ("CAM"), which provides an explanation of services
10 performed and the methods used to allocate indirect costs to the operating businesses. The
11 CAM is included as Attachment MSH-1 of Company Witness Hafeez's direct testimony.
12 ORS reviewed the CAM and verified the methods specified in the CAM were followed by
13 the Company to calculate the allocation of costs to KIU. Corporate services performed by
14 SWWC for its operating businesses include executive, legal, information technology,
15 human resources, facilities, and finance functions.

16 For the SWWC allocation the Company proposes to use the Three-Factor
17 Methodology revised as of January 1, 2022, as discussed in detail in Company Witness
18 Hafeez's direct testimony. ORS accepts the Company's methodology and proposes to
19 include in the Three-Factor Methodology allocation calculation additional SWWC
20 subsidiaries. ORS proposes an adjustment of (\$551,168). The difference in adjustment
21 amounts is attributable to the following:

- 22 1. ORS included in its Three-Factor Methodology allocation calculation seven
23 acquisitions (Weatherly, UIC, Goins, CUC, Ni Florida, Champs, and Synergy

1 Utilities) that occurred after the end of the Test Year that the Company did not
2 include in their Three-Factor Methodology allocation calculation. This reduced
3 KIU's SWWC allocation percentage of 4.3% to 4.1% which resulted in a
4 reduction of costs from SWWC to KIU of \$27,794.

5 2. ORS added the Equivalent Residential Customer's ("ERC") associated with
6 four of the acquired entities (Weatherly, CUC, Ni Florida, and Synergy) to the
7 Company's Business Unit President and Finance Director allocation
8 calculations. The Business Unit President and Finance Director have
9 responsibilities with respect to the four entities. ORS also corrected the
10 understated ERC's associated with KIU included in the allocation calculation
11 of the Company's adjustment. These changes increased the Business Unit
12 President and Finance Director's allocation of costs to KIU from \$69,168 to
13 \$82,016.

14 3. ORS proposes to remove \$46,930 of expenses associated with the newly
15 established SWWC Corporate Development Team based on the
16 recommendation of ORS Witness Hipp. The focus of this team is identifying
17 and acting on merger/acquisition opportunities on behalf of SWWC.

18 4. ORS proposes to remove 50% of salaries, benefits, and taxes directly related to
19 the four (4) highest compensated SWWC Executive employees based on the
20 recommendation of ORS Witness Hipp. The resulting adjustment is (\$52,685).

21 ORS will continue to examine, test, and analyze the corporate services performed,
22 the costs incurred by SWWC, and the allocation of those costs to KIU and other South

Carolina subsidiaries in future dockets to ensure they continue to be reasonable, beneficial for customers, and appropriate for recovery in rates.

Adjustment 2H – Amortize Rate Case Expenses

The Company proposes an adjustment of (\$47,517) to amortize \$200,000 of estimated rate case expenses over a two-year period. ORS proposes an adjustment of (\$120,503) to include allowable, known, and measurable current rate case expenses as of the Audit Cutoff Date of January 18, 2022 of \$81,042, amortized over three years, less per book amortization of \$147,517. The Company's last rate case was Docket No. 2018-257-WS, with Commission Order No. 2019-288 issued on April 25, 2019. By statute, the order in this current docket will be issued on or before May 31, 2022. Hence, the period between Commission Order No. 2019-288 and the order in this docket will be approximately three years and one month. If the Commission accepts a two-year amortization period as proposed by the Company, rate case expenses will be fully recovered after two years. However, if the Company does not file another rate case and receive a new order for more than two years, it will still be collecting rate case expenses as part of its revenue requirement until an order is issued in its next rate case even though all its rate case expenses will have been fully recovered. Therefore, ORS's recommended three-year amortization period is reasonable and allows for more accurate timing of expense recovery.

Adjustment 2I – Removal of Nonallowable Expenses

The Company proposes an adjustment of (\$3,006) to remove expenses deemed nonallowable. The Company's adjustment consists of (\$2,000) related to contributions and (\$1,006) related to lobbying expenses. ORS proposes an adjustment of (\$10,060), which

includes the Company's proposed (\$3,006) of nonallowable expenses and the following additional expenses determined to be nonallowable by ORS:

1. (\$1,386) related to a TV and symbolic pin purchased as an employee service award.
2. (\$1,886) related to additional lobbying expenses.
3. (\$224) related to purchases from florists.
4. (\$3,500) of additional contributions.
5. (\$58) of late fee expenses.

Adjustment 5 – Other Amortization Expense

The Company proposes an adjustment of \$73,383 to amortize known and measurable maintenance costs. The following is a breakdown of the adjustment by category:

1. \$51,435 to amortize sludge removal costs over a three-year period.
2. \$20,908 to amortize tank painting costs over a five-year period.
3. \$1,040 to amortize COVID-19 PPE costs over a three-year period.

ORS reviewed the amortization periods proposed by the Company and verified the documentation provided by the Company to support the maintenance costs to be amortized and accepts the Company's aggregate adjustment of \$73,383.

Q. WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information become available not previously provided by the Company.

1 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

2 A. Yes, it does.